

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
SAJ-01 NSC-05 OMB-01 /066 W
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P R 291104Z JAN 77
FM USMISSION NATO
TO SECSTATE WASHDC PRIORITY 1427
SECDEF WASHDC PRIORITY
INFO CSAF
USNMR SHAPE
CINCUSAFE
USCINCEUR
CINCLANT
OSAF
AFSC ANDREWS AFB MD
ESD LG HANSCOM AB MA
USLOSACLANT
ALL NATO CAPITALS 6739

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0506

SECDEF FOR SECRETARY BROWN.
SECDEF FOR DDR&E, OASD/I&L/ISA/C/GC AND DSAA. SECSTATE FOR
EUR/RPM. CSAF FOR CVA/RD/XO/LG/CVAW/RDP/LGP/LGPS/LGF/
ACB. OSAF FOR SAFRD/SAFIL/SAFFM/SAFGC/SAFIA. ESD FOR YW/
WWT/YWP. AMEMB THE HAGUE, PASS TO RADLO FOR MIRMAN.

E.O. 11652: GDS
TAGS: NATO, OCON, AWACS, MILI
SUBJECT: NATO AEW - MEETING OF FINANCIAL EXPERTS

REF: USNATO 0176, 131835Z JAN 77

SUMMARY. NATO AEW FINANCIAL EXPERTS AGREED IN PRINCIPLE TO
REDUCE PROGRAMS COSTS BY \$330 MILLION, BUT FAILED TO AGREE ON
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A COST SHARING FORMULA. THE FRG WOULD LIKE ITS SHARE TO BE
DECREASED TO 23-24 PERCENT AND THE US SHARE INCREASED TO
33-35 PERCENT. FINANCIAL EXPERTS DO NOT PRESENT PLAN TO MEET
AGAIN. END SUMMARY.

1. NATO AEW NATIONAL FINANCIAL EXPERTS HELD THEIR SECOND
MEETING AT NATO HEADQUARTERS ON JANUARY 26-27, 1977. ALL
NATO NATIONS EXCEPT FRANCE AND ICELAND ATTENDED THE
MEETING. THE US REPRESENTATIVE WAS MR. DALE R. BABIONE,
ACTING ASSISTANT SECREARY OF DEFENSE FOR INSTALLATIONS AND

LOGISTICS.

2. AS A RESULT OF THIS MEETING AND SIDE MEETINGS BETWEEN TECHNICAL REPRESENTATIVES OF THE MAJOR-SHARE NATIONS (CANADA, FRG, UK AND US), THE US E-3A SYSTEM PROGRAM OFFICE AND THE NATO AEW PROGRAMME OFFICE (NAPO), THE MAJOR-SHARE NATIONS REACHED AGREEMENT IN PRINCIPLE ON WAYS OF RESIZING THE PROGRAM TO ABOUT \$2.15 BILLION VICE \$2.48 BILLION. PROGRAM CHANGES WOULD INCLUDE REDUCTIONS IN INDUSTRIAL COLLABORATION, DEFERRAL OF SOME NATO ENHANCEMENTS, AND INCREASED SOFTWARE COMMONALITY BETWEEN THE US AND NATO SYSTEMS.

3. IN ADDITION TO THE SIX NATIONS (CANADA, GREECE, LUXEMBOURG, NORWAY, UK AND US) WHOSE REPRESENTATIVES CONSIDERED THEIR PERCENTAGE SHARES UNDER THE COMPROMISE FORMULA ACCEPTABLE (REFTEL), THE TURKISH REPRESENTATIVE SAID HIS AUTHORITIES COULD PROBABLY ACCEPT TURKEY'S SHARE (0.834 PERCENT). THE NETHERLANDS REP ALSO INDICATED INFORMALLY THAT HIS AUTHORITIES WOULD PROBABLY BE ABLE TO GO ALONG WITH THE SHARE PROPOSED (2.28 PERCENT), IF ALL OF THE MINOR-SHARE NATIONS WERE ABLE TO DO LIKEWISE. HE STRESSED THIS LATTER POINT. COMMENT. ASSUMING SOME PARTICIPATION IN THE PROGRAM BY THE FRG, THIS INCREASES THE NUMBER OF PROBABLY PARTICIPANTS IN ACQUISITION TO NINE NATIONS. END COMMENT.

4. NOTWITHSTANDING THE PROBABLE REDUCTION IN OVERALL COSTS, CONFIDENTIAL

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THERE REMAINS A FUNDING SHORTFALL, CAUSED IN LARGE MEASURE BY FRANCE'S NONPARTICIPATION IN THE PROGRAM. ALL NATIONS HAVE DIFFICULTIES ACCEPTING HIGHER PERCENTAGE SHARES TO OFFSET THE REMAINING SHORTFALL. THE FINANCIAL EXPERTS DISCUSSED ONE POSSIBLE SOLUTION, WHICH WOULD MAKE UP FOR THE SHORTFALL BY, AMONG OTHER THINGS, MAINTAINING THE MAJOR-SHARE NATIONS AT THE SAME DOLLAR LEVEL AS PROPOSED UNDER THE COMPROMISE FORMULA. THE GROUP DID NOT ACCEPT THIS PROPOSAL; HOWEVER, THE GREATEST PROBLEM IS THE FRG'S UNWILLINGNESS TO ACCEPT A SHARE GREATER THAN ABOUT 23 PERCENT. UNDER THE PROPOSAL MENTIONED ABOVE, THE FRG SHARE WOULD BE 28.7 PERCENT, WHILE THE US SHARE WOULD BE OVER 31 PERCENT. THE FRG BELIEVES THE US SHARE SHOULD BE ON THE ORDER OF 33 TO 35 PERCENT. COMMENT. CHANGE IN THE FRG POSITION IS ESSENTIAL TO FURTHER PROGRESS TOWARD A REFINED PROGRAM FOR DEFENSE MINISTERS' CONSIDERATION. IN THE JUDGEMENT OF THE US REPRESENTATIVE TO THE FINANCIAL EXPERTS MEETINGS, US/FRG BILATERAL DISCUSSIONS ARE REQUIRED AT A LEVEL ABOVE THAT OF FINANCIAL EXPERTS. WITH FRG ACTIVE SUPPORT FOR THE \$2.15 BILLION PROGRAM AT 28.7 PERCENT, WIDEST PARTICIPATION BY MINORSHARE NATIONS WOULD BECOME MUCH EASIER TO ACHIEVE. END COMMENT.

5. THE FINANCIAL EXPERTS BRIEFLY DISCUSSED PHASING OF NATIONAL CONTRIBUTIONS, BUT WITHOUT CLOSER AGREEMENT ON

ACQUISITION COST SHARES, THEY WERE UNABLE TO DEVELOP AN ACCEPTABLE PHASING FORMULA. HOWEVER, BASED ON PREFERENCES FOR PHASING EXPRESSED BY REPRESENTATIVES AT THE LAST MEETING, A SHORTFALL OF UP TO \$30 MILLION ANNUALLY REMAINS FROM 1977 THROUGH 1979.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 0506

SECDEF FOR SECRETARY BROWN.
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6. REGARDING FUNDING OF ANNUAL OPERATIONS AND SUPPORT (O&S) COSTS, THE REPRESENTATIVES OF THE MAJOR-SHARE NATIONS AND SEVERAL OF THE MINOR-SHARE NATIONS PREFERRED THAT ALL NATIONS PAY A FULL SHARE OF O&S COSTS BASED ESSENTIALLY ON THE MILITARY BUDGET FORMULA. THE BASIC RATIONALE OF THE MAJOR-SHARE NATIONS, AS EXPRESSED BY THE FRG REP, WAS THAT, WHILE SOME NATIONS WILL BE PREPARED TO MAKE A SPECIAL EFFORT TO PAY MORE FOR ACQUISITION, ALL NATIONS SHOULD PAY A FULL
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SHORE OF O&S COSTS, SINCE ALL WILL BENEFIT FROM THE INFORMATION PROVIDED BY THE SYSTEM. OTHER REPRESENTATIVES, SUCH AS THOSE FROM TURKEY, GREECE AND BELGIUM, SAID THEY COULD

NOT GO TO THEIR AUTHORITIES WITH A REQUEST FOR A LARGER SHARE FOR O&S THAN FOR ACQUISITION.

7. DURING THE SUMMARY OF NATIONAL POSITIONS, THE TURKISH REPRESENTATIVE, LOOKING AHEAD TO DEPLOYMENT OF THE SYSTEM AND A POSSIBLE NATO AEW BASE IN TURKEY, ASKED IF THE US BAN ON MILITARY EQUIPMENT TO TURKEY WOULD APPLY TO SPARE PARTS FOR THE AIRCRAFT. THE CHAIRMAN, ASYG (DEFENSE SUPPORT) LABERGE, OPINED THAT LEGISLATION WOULD TAKE CARE OF THIS PROBLEM.

8. LABERGE WILL SUMMARIZE OUTSTANDING OUTSTANDING PROBLEMS AND THE RESULTS OF THE MEETING IN A COVER LETTER TO THE MINUTES. IN ADDITION, HE WILL DEVELOP A REVISED COST SHARING FORMULA FOR CONSIDERATION BY NATIONS. THE FINANCIAL EXPERTS DID NOT BELIEVE THAT THEY HAD ACHIEVED SUFFICIENT AGREEMENT TO WARRANT ADDITIONAL MEETINGS. LABERGE INDICATED HE WOULD REQUEST THE SECRETARY GENERAL TO INCLUDE NATO AEW ON THE AGENDA OF DPC PERMREPS AT AN EARLY DATE. LABERGE ALSO SUGGESTED THAT FEBRUARY 24-25, 1977 BE KEPT OPEN FOR A POSSIBLE SPECIAL DEFENSE MINISTERS MEETING.

9. COMMENT. THE FINANCIAL EXPERTS MADE REAL PROGRESS AT THIS MEETING BY AGREEING IN PRINCIPLE TO REDUCE ACQUISITION COSTS TO \$2.15 BILLION. HOWEVER, SIGNIFICANT PROBLEMS REMAIN TO BE SOLVED, THE MOST IMPORT OF WHICH IS THE APPARENT INFLEXIBILITY OF THE GERMAN POSITION. WE DO NOT BELIEVE THERE IS SUFFICIENT AGREEMENT AT THIS TIME ON THE COST SHARING FORMULA TO WARRANT A DEFENSE MINISTERS MEETING. HOWEVER, IF THE FRG POSITION CAN BE MODIFIED, LABERGE CAN PROBABLY DEVELOP A PROPOSAL SUITABLE FOR MINISTERIAL CONSIDERATION. IN THIS REGARD, WE AGREE WITH THE US REPRESENTATIVE THAT HIGH LEVEL US/FRG
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BILATERAL NEGOTIATIONS ARE ESSENTIAL IF THIS PROBLEM IS TO BE SOLVED. END COMMENT. ACTION REQUESTED. WASHINGTON VIEWS ON THE PROPOSED DATES FOR THE MEETING OF DEFENSE MINISTERS BY OOB FEBRUARY 1, SINCE THIS SUBJECT WILL PROBABLY COME UP AT THE WEEKLY PERMREPS LUNCHEON. STRAUSS-HUPE

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